

Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-08 FRB-01

INR-07 NSAE-00 USIA-15 TRSE-00 XMB-04 OPIC-06

SP-02 LAB-04 SIL-01 OMB-01 ABF-01 PA-02 PRS-01

NSC-05 SS-15 STR-06 CEA-01 /098 W

-----049976 182340Z /73

P 182324Z JAN 78

FM AMEMBASSY OTTAWA

TO SECSTATE WASHDC PRIORITY 6025

INFO AMCONSUL MONTREAL

ALL OTHER CONGENS IN CANADA POUCH

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E.O. 11652:N/A

TAGS: ECON, EFIN, CA

SUBJECT: RECENT ECONOMIC DEVELOPMENTS

1. SUMMARY. FINANCE MINISTER CHRETIEN IN A RECENT SPEECH LEFT THE DOOR OPEN TO FURTHER GOVERNMENT STIMULUS IN THE SPRING BUDGET. INDUSTRIAL PRODUCTION HAS RESUMED GROWTH AND RETAIL SALES ARE STRONG. THE RECENT INCREASE IN U.S. INTEREST RATES HAS GREATLY DECREASED DIFFERENTIALS WITH CANADA, BUT SO FAR THIS HAS HAD LITTLE EFFECT ON CANADIAN INTEREST RATES OR THE EXCHANGE RATE. END SUMMARY.

2. IN A SPEECH JANUARY 16, FINANCE MINISTER CHRETIEN NOTED THE OECD HAS FORECAST FOUR PERCENT GROWTH OR LESS FOR THE CANADIAN ECONOMY THIS YEAR, BUT HE AGAIN FORECAST FIVE PERCENT REAL GROWTH. WHILE NOTING THE OECD "HAS NOT URGED FURTHER ACTION ON US", SPEECH LEFT THE DOOR WIDE OPEN FOR FURTHER STIMULUS IN THE NEXT FEDERAL BUDGET NOW EXPECTED AROUND THE END OF MARCH. CHRETIEN NOTED THAT NO GROWTH COULD BE EXPECTED IN INVESTMENT AND THAT CONSUMERS WERE HESITANT, SUGGESTING THAT IF THERE IS NO FURTHER GOVERNMENT STIMULUS, THE CANADIAN GROWTH TARGET OF FIVE PERCENT CAN

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ONLY BE REACHED THROUGH A VERY LARGE INCREASE IN THE REAL FOREIGN BALANCE COMING FROM THE EFFECTS OF CANADIAN CURRENCY DEPRECIATION AND STRONG GROWTH IN OTHER COUNTRIES. CHRETIEN ALSO NOTED THE CPI RATE OF INCREASE WOULD BE DOWN TO SIX PERCENT "BY YEAR END". PREVIOUSLY HE HAD SUGGESTED SIX PERCENT WOULD BE THE INFLATION RATE "IN" OR "DURING" YEAR AS A WHOLE.

3. INDUSTRIAL PRODUCTION IN NOVEMBER WAS UP 0.6 PERCENT FROM OCTOBER (REVISED) TO 125.6 (1971 EQUALS 100). THIS FINALLY SURPASSES THE PEAK REACHED IN JUNE, BUT IS STILL LESS THAN ONE PERCENT ABOVE THE IP LEVEL OF LAST JANUARY. MINING, UTILITIES, AND MANUFACTURING ALL SHOWED INCREASES IN NOVEMBER.

4. CONSUMPTION. RETAIL TRADE ADVANCED A HEALTHY 4.1 PERCENT IN NOVEMBER OVER OCTOBER. NEW AUTO SALES WERE UP 11.4 PERCENT. HOWEVER, CONSUMER CREDIT OUTSTANDING (MONTHLY REPORTERS) IN NOVEMBER WAS UP ONLY 12 PERCENT FROM A YEAR EARLIER, DOWN FROM AN INCREASE OF 16 PERCENT IN THE EARLY PART OF THE YEAR.

5. PRICES. CONSUMER PRICES, LED BY FOOD, WERE UP 0.8 PERCENT IN DECEMBER. THE TWELVE MONTH AND YEAR OVER YEAR INCREASE WAS 9.5 PERCENT AND 8.0 PERCENT. ON THE SAME BASIS, NON-FOOD COMPONENTS OF THE CPI WERE UP 7.4 AND 3.0 PERCENT. SEE SEPTTEL FOR DETAILS.

6. INTEREST RATES IN THE U.S. HAVE RECENTLY MOVED UP, BUT SHORT TERM RATES IN CANADA HAVE GENERALLY NOT, LOWERING SHORT TERM U.S.-CANADIAN INTEREST RATE DIFFERENTIALS.

INTEREST RATE DIFFERENTIALS: RECENT LAST MONTH LAST YEAR
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(BASIS POINTS)

BANK RATE	100	150	300
PRIME RATE	25	50	300
THREE MONTH TREASURY BILLS	48	111	349
DAY TO DAY FUNDS	75	92	470

THE LOWERING OF THE DIFFERENTIALS HAS NOT BEEN ACCOMPANIED BY ADDED PRESSURE ON THE CANADIAN DOLLAR EXCHANGE RATE, INDICATING SOME EXPECTATION THAT U.S. RATES WILL NOT MOVE UP VERY FAR VERY SOON. HOWEVER, WITH ROOM FOR MANEUVERING NOW REDUCED, FURTHER INCREASES IN U.S. RATES ARE LIKELY TO BE FELT QUICKLY EITHER ON THE CANADIAN INTEREST RATES OR THE EXCHANGE RATE. ENDERS

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 jan 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: ECONOMIC CONDITIONS, FINANCIAL TRENDS
Control Number: n/a
Copy: SINGLE
Draft Date: 18 jan 1978
Decaption Date: 01 jan 1960
Decaption Note:
Disposition Action: n/a
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment:
Disposition Date: 01 jan 1960
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1978OTTAWA00283
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Expiration:
Film Number: D780027-1007
Format: TEL
From: OTTAWA
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1978/newtext/t19780150/aaaabpvf.tel
Line Count: 108
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: e5043ce2-c288-dd11-92da-001cc4696bcc
Office: ACTION EUR
Original Classification: UNCLASSIFIED
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 2
Previous Channel Indicators: n/a
Previous Classification: n/a
Previous Handling Restrictions: n/a
Reference: n/a
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 01 mar 2005
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 3755621
Secure: OPEN
Status: NATIVE
Subject: RECENT ECONOMIC DEVELOPMENTS
TAGS: ECON, EFIN, CA
To: STATE
Type: TE
vdkgvwkey: odbc://SAS/SAS.dbo.SAS_Docs/e5043ce2-c288-dd11-92da-001cc4696bcc
Review Markings:
Sheryl P. Walter
Declassified/Released
US Department of State
EO Systematic Review
20 Mar 2014
Markings: Sheryl P. Walter Declassified/Released US Department of State EO Systematic Review 20 Mar 2014